



PRIMER



Indiana State Teachers' Retirement Fund For active and retired members Winter Issue - November 2003

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New numbers from the Social Security Administration

The Social Security Administration has announced a 2.1% cost-of-living increase for 2004. Those receiving regular benefits from the SSA will first notice the increase on their January checks.

Those choosing early retirement from SSA can earn \$11,640 in wages before having to return \$1 for every \$2 earned. Beginning the year after attaining the SSA normal retirement age, there is no earnings limit. Special rules apply for the year the SSA normal retirement age is reached.

Workers paying into Social Security will be taxed at the same 6.2% rate as before. But, the first \$87,900 will be subject to FICA as opposed to last year's \$87,000. The Medicare rate remains at 1.45% on all wages in earned in 2004.

From the Executive Director

Those societies that value education have been successful. The view at TRF is that education can save the world. If Indiana is to be successful in the future we must have well-educated Hoosiers. Well-educated people depend on having access to great teachers - the very best teachers. If Indiana is to attract the best teachers, we must offer competitive benefits and a stable supportive system. Part of offering teachers a competitive and supportive system is a well run, well-funded competitive retirement program.

A teacher educator retirement system is as much a cost of education as is the support of staff salaries, textbooks or other basic educational costs. Making the Indiana teachers' retirement program a competitive benefit depends largely on one major issue - the enormous unfunded liability the state has to TRF. Indiana ranks as the second least funded teachers' pension system in the nation. The current unfunded liability is in excess of nine billion dollars. With the current assets of the fund, it will be nearly impossible to earn our way out of this liability. If we are to change this situation, we must either receive a much larger contribution of state dollars over time or decrease benefits. A mediocre plan that decreases benefits will not support great teachers in the classrooms of Indiana.

Unless we are funded appropriately, there cannot be improvements to the benefits paid retirees. Unless we are funded appropriately, we cannot afford future cost of living increases. Unless we carefully craft a long-range plan and have the discipline to stick to the plan - we will never be able to support the basic benefits that many teachers receive that work in other states. When the retirement fund was legislated early in the 20th century, Indiana chose a pay-as-you-go teachers' retirement system. That means we must have yearly contributions at least equal to the current pension payments. The Fund is concerned for General Assemblies of the near future that must fund retirement benefits estimated at \$1 billion per year a short ten years from now. We know every teacher in this payment projection. We know their experience, their ages and their probable retirement date. We also can actuarially project their life span. What we don't know is if we will have the funding to pay for their retirement benefits. Current pension payouts are about \$500 million per year.

Every Hoosier wants Indiana to prosper and that will depend on education. Excellent education depends on wonderful well-educated and well-supported teachers. Teachers will come and remain in Indiana if they have competitive benefits. This means having an acceptable, competitive retirement program. Every union, every professional organization, every legislator and every person interested in Indiana and education must stop pretending that a major problem does not exist in the Indiana State Teachers' Retirement Fund. If we expect to prosper in the future then we must be serious about appropriately supporting our retirement system. Many seem to want to follow the philosophy: "I believe in looking reality straight in the eye and denying it." - Garrison Keillor, humorist. At TRF we believe we have to look reality straight in the eye and do something about it!

HOW TO BOOST YOUR RETIREMENT ACCOUNT AND DELAY PAYING TAXES.

Now, it is possible to add to your Annuity Savings Account on a pre-tax basis. First, you should determine what percent of income can you afford to set aside for the future. This is important, because once you set your percentage, you cannot change your mind or stop your participation. Err to the lower side rather than to a higher percentage. Members may choose to add between 1% and 10% of their salary.

Dollars you put into your Annuity Savings Account are deferred from federal, state and local taxation until you take possession of your account at retirement. At that time, you are only taxed on the amount distributed in any one (1) tax year.

For most employees, the invitation to participate will close in two years. For more information on this significant benefit, please click on "Voluntary Pre-Tax Savings" on the TRF home page at www.in.gov/trf

Mutual Fund Issues

TRF members may have questions regarding the mutual fund market timing and trading scandals currently in the news. Be assured your money is safe and has not been affected. The Fund does employ two firms that have been implicated, Putnam Investments and Alliance Capital Management. However, because all monies invested by the Fund are held in a separate account and invested separately from the firms' mutual fund business, we do not incur any of the increased costs associated with market timing and excessive trading. Note, too, the pension portion of your retirement is guaranteed by the State of Indiana, irrespective of the performance of the Fund's investments. For additional information, please visit our website at www.in.gov/trf/investments

Quick checklist for those retiring in 2004

✓ Fall 2003

Schedule a telephone or personal appointment with a retirement counselor, if desired. Obtain a 2004 Retirement Application from TRF.

✓ Winter 2003

Visit the TRF website (www.in.gov/trf) to estimate your retirement benefits by clicking on "Retirement Calculator". Review the "Retiring Member's Guidebook" by clicking on "Publications". Check your statements on line paying particular attention to the service credit reported. Notify TRF of any discrepancies in your service credit. Check for allowable leaves, military service, missing in state or out of state teaching years. Consider whether purchasing a year will make a significant difference in your retirement. Are years you may have worked under the Public Employees' Retirement Fund credited?

✓ Early Spring 2004

Obtain a 2004 retirement application from your employer or by calling the TRF office.

✓ Spring 2004

Complete the retirement application and forward it to TRF. Give Part 2 of the application to your payroll department. □



Everything I needed to know about retirement, I LEARNED IN MY PAJAMAS.

Many members are under the false impression that they must take a day away from their busy lives and travel to Indianapolis for a personal retirement counseling interview. This is no longer true.

While meeting with a Pension Administrator may prove to be helpful, a one on one telephone conference can achieve as much and save on gas, time, parking fees and stress.

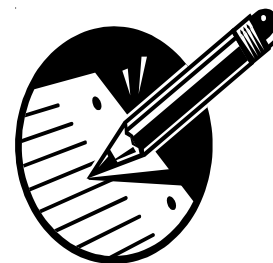
To use this rapidly growing form of retirement education, a member would call our toll free number (1-888-286-3544) and ask for a telephone appointment. A future appointment time will be set that is convenient for both the member and a Pension Administrator. Forms for requesting an estimate will be sent to the member's home immediately.

If you return the benefit request as soon as possible, both the member and the Pension Administrator will receive a full estimate of your retirement figures. With the estimate as a common reference point, it is easier to explain the options, alternatives and rules and for the member to ask meaningful questions. Our Pension Administrators will give you as much time as needed to ensure that you are comfortable with the retirement process and all of your questions are answered.

NEWLAND'S notes



Bob Newland has been with the Fund for 18 years. He began as the Investment Coordinator and is currently the Deputy Director for Investments. He has an undergraduate degree in Political Science from Indiana University, and an MPA with a Finance concentration from American University. He also has certifications in financial asset management as well as employee benefits.



Four of the five investment options in the Annuity Savings Account are measured against an “index.” Each index is supposed to represent the kind of securities that should be found in each of the options. Not only is an index a measuring benchmark, but it also acts as a control device to help ensure portfolio compliance. Generally, you shouldn’t find small cap stocks in a designated large cap portfolio.

The most famous index is presumably the Dow Jones Industrial Average. It is likely the oldest index in existence (May 26, 1896) and is composed of 30 large “blue chip” companies. It is a price-weighted average index because it measures the return on a portfolio that holds one share of each stock. It is not normally used as a benchmark (at least in the institutional investment world) however, because of the small number of stocks in the index.

Probably the most common index after the Dow is the S & P 500 Stock Index (one of our options). It is composed of 500 large companies. About 87% of the stocks in this index are traded on the New York Stock Exchange. The remaining 13% are traded on the American Stock Exchange and NASDAQ. Unlike the Dow, it is a market-value-weighted index (share price times number of shares outstanding). The specific stocks in this index change periodically and are chosen for their market size, liquidity and industrial group representation. S&P also publishes many other indexes. There are growth and value indexes, mid-cap and small-cap indexes, and a composite index “the S&P Super Composite 1500.”

Russell also publishes indexes. The most popular would probably be the Russell 2000 Small Cap Index (the one we use for our small cap option). As the name implies, there are approximately 2000 companies in the index. The composition of the index is set annually and doesn’t change for 12 months. Like the S&P 500 Index, it is market value weighted. Also like the S&P, Russell offers other indexes: large, mid, growth, value, etc.

We use the MSCI EAFE index for our international option. This long acronym stands for “Morgan Stanley Capital International Europe Australasia and Far East.” It is a free-float adjusted market value index that measures developed market equity performance (excluding the U.S. and Canada). The term “free-float” refers to foreign investment restrictions: some countries restrict the amount of share ownership by foreigners. The index therefore includes only those shares available to all investors. Like the other index providers mentioned above, MSCI also offers many other indexes (especially country based).

Our Bond Fund option uses the Lehman Brothers Aggregate Index as its benchmark. It is made up of U.S. Government, corporate, mortgage-backed, and asset-backed fixed income securities. All of the securities in the index are investment grade (or better), have at least one year to maturity, and have an outstanding par value of at least \$100 million. Lehman Brothers also offers many other fixed income indexes.

While we have chosen to use the above mentioned indexes, there are many other index providers in the investment world: Merrill Lynch, Wilshire, and Value Line to name a few.

The *Primer* is published by the Fund to update members on Fund news and to give general information about Fund benefits. Specific information is available in the Active Member’s Handbook, the Retiring Member’s Guidebook or by contacting the office.

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Don't miss this website!

The Social Security Administration has put together a teaching kit aimed at introducing high school students to Social Security. It is targeted at the interest level of students about to enter the work force and is recommended for social studies, government, economics, civics, consumer education and home economic classes. The kit contains 5 lessons, student handouts, transparencies, quizzes and a 25-minute video.

For more information or to order the teacher's kit, log on to www.ssa.gov/teacher/teacher.html or call the SSA from 7 am to 7pm Monday through Friday at 1-800-772-1213.

TRF WEB NEWS

Current performance of the annuity savings account is updated daily

2003 Fiscal Operations Report

Pre-Retirement VideoConference PowerPoint presentation and locations are available at www.in.gov/trf

Employer Subscription Agreement forms are available under the 'Forms' page

The Employer videoconference PowerPoint presentation is available on the website

Employer rate change information can be found at www.in.gov/trf/pdfs/employerratechanges96.pdf

Voluntary pre-tax contributions are explained in detail at www.in.gov/trf/vol_pretax.html

Saving trees and stamps

Members have recently been given the option of **NOT** receiving direct deposit receipts and quarterly statements via mail. Instead, even those who know just the basics of a computer, may go to the TRF website to view and/or print their receipts and statements on line.

Although members are encouraged to "opt out" of receiving paper documents in the mail, it is not mandatory. To "opt out" go to our website and click on "Forms". Then choose the appropriate statement or direct deposit "opt out" form. To continue to receive paper documents, members need not do anything.

There are several advantages to "opting out." Obviously the more time the TRF staff spends on producing and mailing the papers, the less time is available to do other important member oriented tasks. The cost savings to the fund in staff time, paper, envelopes and stamps grows as each member opts out. Members can become more organized by copying their statements or receipts electronically and saving them to a special computer file.

For more information or to obtain help in navigating the website, please call the TRF office.

